

**KEYSTONE
AREA EDUCATION AGENCY 1**

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

JUNE 30, 2014

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KEYSTONE AREA EDUCATION AGENCY 1

OFFICIALS

<i>NAME</i>	<i>TITLE</i>	<i>TERM EXPIRES</i>
Board of Directors		
Francis Peterson	President	2015
Sandra Gassman	Vice-President	2015
Tina Pech	Member	2017
Walter Pregler	Member	2015
James Moeller	Member	2015
Craig Beytien	Member	2015
Bill Withers	Member	2017
Galen Reinsmoen	Member	2017
Jan Kreitzer	Member	2017
Agency		
Patrick Heiderscheit	Administrator	
Julie Tschirgi	Board Secretary	
Audie Baumgartner	Business Manager and Treasurer	Indefinite



SCHNURR & COMPANY, LLP
Certified Public Accountants and Consultants

Independent Auditor's Report

To the Board of Directors of
Keystone Area Education Agency 1
Elkader, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Keystone Area Education Agency 1 as of and for the year ended June 30, 2014, and the related Notes to Financial Statements, which collectively comprise the Agency's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Agency's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Keystone Area Education Agency 1 as of June 30, 2014, and the respective changes in financial position thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 5 through 10 and 26 through 28 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Keystone Area Education Agency 1's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the ten years ended June 30, 2013 (which are not presented herein) and expressed unmodified opinions on those financial statements. The supplementary information included in Schedules 1 through 4, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 7, 2014 on our consideration of Keystone Area Education Agency 1's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Keystone Area Education Agency 1's internal control over financial reporting and compliance.

Schnurr & Company, LLP

Fort Dodge, Iowa
November 7, 2014

KEYSTONE AREA EDUCATION AGENCY 1

MANAGEMENT'S DISCUSSION AND ANALYSIS

Keystone Area Education Agency 1 provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the year ended June 30, 2014. We encourage readers to consider this information in conjunction with the Agency's financial statements which follow.

2014 FINANCIAL HIGHLIGHTS

General Fund revenues in 2014 (FY14) were \$21,971,257 while General Fund expenditures for FY14 were \$22,595,427. This resulted in a decrease in the Agency's General Fund balance from \$2,818,349 in FY13 to \$2,194,179 in FY14, a 22% decrease from the prior year.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the agency's financial activities.
- The Government-wide Financial Statements consist of a statement of Net Position and a Statement of Activities. These provide information about the activities of Keystone Area Education Agency as a whole and present an overall view of the Agency's finances.
- The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the Agency's operations in more detail than the government-wide statements by providing information about the most significant funds.
- Notes to the Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.
- Required Supplementary Information further explains and supports the financial statements with a comparison of the Agency's budget for the year, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.
- Supplementary Information provides detailed information about the non-major funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the Agency.

MANAGEMENT'S DISCUSSION AND ANALYSIS

REPORTING THE AGENCY'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide statements report information about the Agency as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the Agency's assets, deferred outflow of resources and liabilities, with the difference reported as net position. All of the current year revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two government-wide statements report the Agency's net position and how it has changed. Net position is one way to measure the Agency's financial health or financial position. Over time, increases or decreases in the Agency's net position is an indicator of whether financial position is improving or deteriorating. To assess the Agency's overall health, additional non-financial factors, such as changes in the Agency's property tax base and the condition of its facilities, need to be considered.

In the government-wide financial statements, the Agency's activities consist of the following category:

- *Governmental activities:* The Agency's basic services are included here, such as regular and special education instruction, student and instructional staff support services, and administration. Local school districts, federal and state aid finances most of these activities.

Fund Financial Statements

The fund financial statements provide detailed information about the Agency's funds, focusing on its most significant or "major" funds – not the Agency as a whole. Funds are accounting devices the Agency uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law or by bond covenants. The Agency establishes other funds to control and manage money for particular purposes, such as accounting for major construction projects or to show it is properly using certain revenues, such as federal grants.

The Agency has one kind of fund:

- Governmental funds account for most of the Agency's basic services. These focus on how cash and other financial assets that can readily be converted to cash flow in and out and the balances left at year-end available for spending. Consequently, the governmental fund financial statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Agency's programs. The Agency's governmental funds include: 1) the General Fund and 2) the Special Revenue Fund.

The required financial statements for governmental funds include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances.

Reconciliations between the government-wide financial statements and the governmental fund financial statements follow the governmental fund financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of financial position. Keystone Area Education Agency's net position at the end of fiscal year 2014 totaled approximately \$4.4 million compared to approximately \$5.2 million at the end of fiscal year 2013. The analysis that follows focuses on the net position and changes in net position.

Condensed Statement of Net Position			
	Total		Percentage
	Governmental Activities		Change (%)
	2013	2014	2013-2014
Current and other assets	\$ 5,589,820	\$ 5,199,934	(7.0)
Capital assets	3,388,070	3,208,100	(5.3)
Total assets	8,977,890	8,408,034	(6.3)
Long-term obligations	842,790	877,331	4.1
Other liabilities	2,888,086	3,142,300	8.8
Total liabilities	3,730,876	4,019,631	7.7
Net position:			
Invested in capital assets, net of related debt	3,388,070	3,208,100	(5.3)
Unrestricted	1,858,944	1,180,303	(36.5)
Total net position	\$ 5,247,014	\$ 4,388,403	(16.4)

The Agency's total net position decreased 16%, or approximately \$858,611, from fiscal year 2013. The decrease occurred primarily in governmental activities as a result of providing more services to local school districts during the year ended June 30, 2014. The decrease in unrestricted net position was primarily due to the Agency using carryover fund balance to meet its financial obligations during the year and recording the net OPEB liability in the current year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

The following analysis details the changes in net position resulting from the Agency's activities.

	Changes in Net Position		
	Total		Percentage
	Governmental Activities		Change (%)
	2013	2014	2013-2014
Revenues:			
Program revenues:			
Charges for service	\$ 1,307,776	\$ 1,130,566	(13.6)
Operating grants and contributions	9,897,178	9,367,288	(5.4)
General revenues:			
Property taxes	6,125,865	6,203,106	1.3
State foundation aid	5,096,229	5,537,138	8.7
Unrestricted investment earnings	34,159	14,282	(58.2)
Total revenues	22,461,207	22,252,380	(0.9)
Program expenses:			
Instruction	237,586	245,584	3.4
Student support services	11,306,629	10,638,519	(5.9)
Instructional staff support services	6,485,648	6,623,503	2.1
General administration	3,252,859	3,111,985	(4.3)
Business administration	1,414,629	1,635,203	15.6
Plant operations and maintenance	970,021	805,630	(16.9)
Central and other support services	117	285	143.6
Community service operations	46,416	50,282	8.3
Interest on long-term debt	73,410	-	(100.0)
Total expenses	23,787,315	23,110,991	(2.8)
(Decrease) in net position	(1,326,108)	(858,611)	(35.3)
Net position beginning of year	6,573,122	5,247,014	(20.2)
Net position end of year	\$ 5,247,014	\$ 4,388,403	(16.4)

Operating grants and contributions from local, state, and federal sources account for 42% of the total revenue. The Agency's expenses primarily relate to instruction and support services, which account for 77% of the total expenses.

MANAGEMENT'S DISCUSSION AND ANALYSIS

INDIVIDUAL FUND ANALYSIS

As previously noted, Keystone Area Education Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The Agency's governmental funds reported a combined fund balance that decreased from \$2,818,349 to \$2,194,179.

Governmental Fund Highlights

FY '14 for Keystone Area Education Agency was highlighted by the following management strategies:

- maintenance of an appropriate ending balance in each of the three divisions (special education, educational services, and media)
- continuation of a conservative master staffing plan in an attempt to ensure appropriate balance among and between revenue, expenditures and member district needs.

Economic Factors and Next Year's Budget

FY '15 for Keystone Area Education Agency promises to be impacted by the following realities:

- loss of Fredericksburg to AEA 267 (two year transition via inter-agency contract; full impact of loss will not be realized until FY '17)
- improved state resources (4% state supplemental aid)
- improved federal special education resources (no sequestration)
- continued restoration of ~\$360,000 state special education dollars, which leaves the special education division short ~\$1.2 million generated by the traditional funding formula
- escalation of duties for special education to support the state's effort to close the achievement gap for students with individualized education programs (IEPs)
- escalation of duties for instructional services to support the state's Multi-Tiered System of Supports (MTSS) for early literacy and year two of the teacher leadership and compensation (TLC) program.

MANAGEMENT'S DISCUSSION AND ANALYSIS

BUDGETARY HIGHLIGHTS

The Agency's Board of Directors annually adopts a budget on a basis consistent with U.S. generally accepted accounting principles. Although the budget document presents functional disbursements by fund, the legal level of control is at the total expenditure level, not at the fund or fund type level. After required public notice and State Board review, the State Board either approves the budget or returns it with comments. Any unapproved budget must be resubmitted to the State Board for final approval. The budget may be amended during the year utilizing procedures prescribed by the State Board. Over the course of the year, the Agency amended its annual operating budget one time to reflect additional revenue and expenditures associated with the additional services needed and provided to the local school districts. A schedule showing the original and final budget amounts compared to the Agency's actual financial activity is included in the required supplementary information section of this report.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

On June 30, 2014, the Agency had invested approximately \$3.21 million, net of accumulated depreciation/amortization, in a broad range of capital assets, including land, building, computers, media lending library and audio-visual equipment. Keystone Area Education Agency had depreciation expense of \$447,519 in FY14 and total accumulated depreciation of approximately \$6.86 million on June 30, 2014. More detailed information about capital assets is available in Note 3 to the financial statements.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the Agency's citizens, taxpayers, customers, investors and creditors with a general overview of the Agency's finances and to demonstrate the Agency's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office of Keystone Area Education Agency, 1400 2nd St N.W., Elkader, Iowa, 52043-9564.

BASIC FINANCIAL STATEMENTS

KEYSTONE AREA EDUCATION AGENCY 1

KEYSTONE AREA EDUCATION AGENCY 1**Exhibit A****STATEMENT OF NET POSITION
Year Ended June 30, 2014**

	Total Governmental Activities
Assets	
Cash	\$ 4,256,352
Receivables:	
Accounts	105,981
Due from other governments	801,469
Inventories	22,262
Prepaid expenses	13,870
Capital assets (net of accumulated depreciation)	3,208,100
Total assets	8,408,034
Liabilities	
Payables	
Accounts payable	559,557
Due to other governments	3,474
Salaries and benefits payable	2,331,643
Accrued liabilities	37,973
Deposits payable	73,108
Long-term liabilities:	
Portion due or payable within one year:	
Compensated absences	104,545
Early retirement	32,000
Portion due or payable after one year:	
Compensated absences	149,928
Early retirement	128,000
Net OPEB liability	599,403
Total liabilities	4,019,631
Net Position	
Invested in capital assets, net of related debt	3,208,100
Unrestricted	1,180,303
Total net position	\$ 4,388,403

See Notes to Financial Statements.

KEYSTONE AREA EDUCATION AGENCY 1**STATEMENT OF ACTIVITIES****Year Ended June 30, 2014**

		Program Revenues	
		Charges for	Operating
	Expenses	Services	Grants and Contributions
Functions/Programs:			
Governmental Activities:			
Instruction	\$ 245,584	\$ 1,817	\$ 242,922
Student support services	10,638,519	363,714	7,952,306
Instructional staff support services	6,623,503	292,923	1,073,943
General administration	3,111,985	43,705	332
Business administration	1,635,203	428,407	-
Plant operations and maintenance	805,630	-	-
Central and other support services	285	-	-
Community service operations	50,282	-	97,785
Total	\$ 23,110,991	\$ 1,130,566	\$ 9,367,288

General Revenues:

Property tax levied for general purposes

State foundation aid

Unrestricted investment earnings

Change in net position

Net position beginning of year

Net position end of year

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Position	
Governmental Activities	Total
\$ (845)	\$ (845)
(2,322,499)	(2,322,499)
(5,256,637)	(5,256,637)
(3,067,948)	(3,067,948)
(1,206,796)	(1,206,796)
(805,630)	(805,630)
(285)	(285)
47,503	47,503
(12,613,137)	(12,613,137)
6,203,106	6,203,106
5,537,138	5,537,138
14,282	14,282
(858,611)	(858,611)
5,247,014	5,247,014
\$ 4,388,403	\$ 4,388,403

KEYSTONE AREA EDUCATION AGENCY 1
Exhibit C
BALANCE SHEET - GOVERNMENTAL FUNDS
Year Ended June 30, 2014

		Nonmajor Governmental		
		General	Funds	Total
Assets				
Cash		\$ 4,222,140	\$ 34,212	\$ 4,256,352
Receivables:				
Accounts		105,981	-	105,981
Due from other governments		801,469	-	801,469
Inventories		22,262	-	22,262
Prepaid expenditures		13,870	-	13,870
Total assets		\$ 5,165,722	\$ 34,212	\$ 5,199,934
Liabilities and Fund Balances				
Payables:				
Accounts		\$ 558,155	\$ 1,402	\$ 559,557
Due to other governments		-	3,474	3,474
Salaries and benefits payable		2,302,307	29,336	2,331,643
Accrued liabilities		37,973	-	37,973
Deposits payable		73,108	-	73,108
Total liabilities		2,971,543	34,212	3,005,755
Fund balances:				
Nonspendable:				
Inventory		22,262	-	22,262
Prepaid items		13,870	-	13,870
Restricted for:				
Media materials		146	-	146
Educator quality		136,769	-	136,769
Committed for:				
Specific special purposes		128,000	-	128,000
Unassigned		1,893,132	-	1,893,132
Total fund balances		2,194,179	-	2,194,179
Total liabilities and fund balances		\$ 5,165,722	\$ 34,212	\$ 5,199,934

See Notes to Financial Statements.

**RECONCILIATION OF THE BALANCE SHEET--
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
Year Ended June 30, 2014**

Total governmental fund balances (page 13) \$ 2,194,179

***Amounts reported for governmental activities in the Statement of Net Position
are different because:***

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of assets is \$10,063,347 and the accumulated depreciation is \$6,855,247.

3,208,100

Long-term liabilities, including compensated absences and other postemployment benefits, are not due and payable in the current period and, therefore, are not reported in the funds.

(1,013,876)

Net position of governmental activities (page 11)

\$ 4,388,403

See Notes to Financial Statements.

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES -- GOVERNMENTAL FUNDS
Year Ended June 30, 2014**

	Nonmajor Governmental		
	General	Funds	Total
Revenues:			
Local sources	\$ 7,347,954	\$ -	\$ 7,347,954
State sources	6,754,340	281,123	7,035,463
Federal sources	7,868,963	-	7,868,963
Total revenues	21,971,257	281,123	22,252,380
Expenditures:			
Current:			
Instruction	1,817	242,922	244,739
Student support services	10,621,094	-	10,621,094
Instructional staff support services	6,599,189	1,887	6,601,076
General administration	3,006,943	26,684	3,033,627
Business administration	1,478,733	54	1,478,787
Plant operations and maintenance	837,258	9,576	846,834
Central and other support services	285	-	285
Community service operations	50,108	-	50,108
Total expenditures	22,595,427	281,123	22,876,550
Excess (deficiency) of revenues over (under) expenditures	(624,170)	-	(624,170)
Other financing sources (uses):			
Transfers in	-	-	-
Transfers out	-	-	-
Total financing sources (uses)	-	-	-
Changes in fund balances	(624,170)	-	(624,170)
Fund balances, beginning of year	2,818,349	-	2,818,349
Fund balances, end of year	\$ 2,194,179	\$ -	\$ 2,194,179

See Notes to Financial Statements.

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES --
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2014**

Net change in fund balances - total governmental funds (page 15) **\$ (624,170)**

***Amounts reported for governmental activities in the
statement of activities are different because:***

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the estimated useful lives of the assets. Depreciation expense exceeded capital outlay in the current year as follows:

Expenditures for capital assets	\$ 300,725	
Depreciation expense	<u>(447,519)</u>	(146,794)

In the Statement of Activities, the loss on the disposition of capital assets is reported, whereas in the governmental funds, the loss is not recognized. (33,176)

Compensated absence, early retirement, and other postemployment benefit expense reported in the statement of activities does not require the use of current financial resources and, therefore, is not reported as an expenditure in the governmental funds.

(54,471)

Change in net position of governmental activities (page 12)

\$ (858,611)

See Notes to Financial Statements.

KEYSTONE AREA EDUCATION AGENCY 1

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Keystone Area Education Agency 1 is an intermediate school corporation established to identify and serve children who require special education. The Agency also provides media services and education support services. These programs and support services are provided to 24 school districts and private schools in an eight-county area. The Agency is governed by a Board of Directors whose members are elected on a non-partisan basis.

The Agency's financial statements are prepared in conformity with U. S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity:

For financial reporting purposes, Keystone Area Education Agency 1 has included all funds, organizations, agencies, boards, commissions and authorities. The Agency has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Agency are such that exclusion would cause the Agency's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Agency to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Agency. The Agency has no component units that meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation:

Government-wide financial statements: The Statement of Net Position and the Statement of Activities report information on all of the activities of the Agency. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Position presents the Agency's nonfiduciary assets and liabilities, with the difference reported as net position. Net position is reported in the following categories:

Net investment in capital assets consists of capital assets, net of accumulated depreciation/amortization and reduced by outstanding balances for bonds, notes, and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net position results when constraints placed on net position use are either externally imposed or are imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of net position not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (continued):

Government-wide financial statements (continued): The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Unrestricted interest income and other items not properly included among program revenues are reported instead as general revenues.

Fund financial statements: Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The Agency reports the following major governmental fund:

The General Fund is the general operating fund of the Agency. All general revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

C. Measurement Focus and Basis of Accounting:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current year or soon enough thereafter to pay liabilities of the current year. For this purpose, the Agency considers revenues to be available if they are collected within 60 days after year-end.

Intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the Agency.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting (Continued):

Under the terms of grant agreements, the Agency funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the Agency's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

When an expenditure is incurred in governmental funds which be paid using either restricted or unrestricted resources, the Agency's policy is to pay the expenditure from restricted fund balance and then from, less-restrictive classifications – committed, assigned, and then unassigned fund balances.

D. Assets, Liabilities and Fund Equity:

Cash: Cash includes amounts in demand deposits and money market funds.

Inventories: Inventories are stated at cost using the first-in, first-out method and consist of expendable supplies and materials. The cost of these items is recorded as an expenditure at the time of consumption.

Capital assets: Capital assets, which include property, furniture and equipment and intangibles, are reported in the applicable governmental or business type activities column in the government-wide Statement of Net Position. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the Agency as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

Land	No lower limit
Building	\$ 50,000
Improvements other than buildings	5,000
Furniture and equipment	5,000
Library books	Aggregated annual purchases

Capital assets of the Agency are depreciated/amortized using the straight-line method of depreciation/-amortization over the following useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	25
Improvements other than buildings	20
Furniture and equipment	5-20
Library books	5

Salaries and benefits payable: Payroll and related expenses for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities and Fund Equity (continued):

Compensated absences: Agency employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability has been recorded in the Statement of Net Position representing the Agency's commitment to fund non-current compensated absences. This liability has been computed based on rates of pay in effect at June 30, 2014. The compensated absences liability attributable to the governmental activities will be paid primarily by the General and Special Revenue Funds.

Long-term liabilities: In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Position.

Fund balances: In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable fund balances are amounts that cannot be spent because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted fund balances are amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or are imposed by law through constitutional provisions or enabling legislation.

Committed fund balances are amounts that can be used only for specific purposes determined pursuant to constraints formally imposed by the Board of Directors through resolution approved prior to year end. Committed amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same action it employed to commit these amounts.

Unassigned fund balances are amounts not included in preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

Note 2. Cash, Cash Equivalents and Pooled Investments

The Agency's deposits in banks at June 30, 2014 were entirely covered by Federal depository insurance or by the state sinking fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Agency is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Directors; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

NOTES TO FINANCIAL STATEMENTS

Note 3. Capital Assets

Capital assets activity for the year ended June 30, 2014 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 343,373	\$ -	\$ -	\$ 343,373
Total capital assets not being depreciated	343,373	-	-	343,373
Capital assets being depreciated:				
Buildings	5,400,659	-	-	5,400,659
Improvements other than buildings	93,000	-	-	93,000
Furniture and equipment	991,571	116,119	87,702	1,019,988
Library books	3,265,765	184,606	244,044	3,206,327
Total capital assets being depreciated	9,750,995	300,725	331,746	9,719,974
Less accumulated depreciation for:				
Buildings	3,453,351	165,359	-	3,618,710
Improvements other than buildings	75,330	4,185	-	79,515
Furniture and equipment	630,068	105,499	78,930	656,637
Library books and films	2,547,549	172,476	219,640	2,500,385
	6,706,298	447,519	298,570	6,855,247
Total capital asset being depreciated, net	3,044,697	(146,794)	33,176	2,864,727
Governmental activities capital assets, net	\$ 3,388,070	\$ (146,794)	\$ 33,176	\$ 3,208,100

Depreciation expense was charged to functions of the Agency as follows:

Governmental activities:	
Student support services	\$ 3,654
Instructional staff support services	180,589
Business administration	68,927
Plant operations and maintenance	194,349
Total governmental activities depreciation expense	\$ 447,519

NOTES TO FINANCIAL STATEMENTS

Note 4. Long-term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2014 is as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Early retirement obligation	\$ 220,000	\$ 160,000	\$ 220,000	\$ 160,000	\$ 32,000
Compensated absences	252,674	74,414	72,615	254,473	104,545
Net OPEB liability	486,731	137,908	25,236	599,403	-
	<u>\$ 959,405</u>	<u>\$ 372,322</u>	<u>\$ 317,851</u>	<u>\$ 1,013,876</u>	<u>\$ 136,545</u>

Early retirement obligation: The Agency offered a voluntary early retirement plan to their employees during the year ended June 30, 2014. Eligible employees must have completed at least eight years of full-time service to the Agency (going forward, fifteen years if start date after July 1, 2012) and must have reached the age of fifty-five on or before June 30 in the calendar year in which early retirement commences. The application for early retirement is subject to approval by the Board of Directors. Early retirement benefits equal \$20,000 per retiree and are distributed over five years at \$4,000 per year. The Agency retains the right to expedite payment of the benefit if its fund balances allow. The Agency shall pay the benefit annually in January, May or September with the month of payment being the one that most closely follows the month of the resigning/retiring employee's last day of employment with the Agency. At June 30, 2014, the Agency has \$160,000 due as an obligation for early retirement liability for 8 employees that elected early retirement during the year. Actual early retirement expenditures for the year ended June 30, 2014 totaled \$220,000.

Note 5. Operating Leases

The Agency leased various facilities within the area to house the different divisions of the Agency and copiers and other related equipment that have been classified as operating leases and accordingly, all rents are charged to expenditures as incurred. The leases expire on dates ranging from June 2015 through June 2020.

The following is a schedule by year of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2014.

Year Ending June 30,	Amount
2015	\$ 49,355
2016	47,255
2017	28,728
2018	10,200
2019	4,600
Thereafter	1,800
	<u>\$ 141,938</u>

Total rental expenditures for the year ended June 30, 2014 for all operating leases, except those with terms of a month or less that were not renewed, was \$97,810.

NOTES TO FINANCIAL STATEMENTS

Note 6. Pension and Retirement Benefits

The Agency contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits that are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P. O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 5.95% of their annual covered salary and the Agency is required to contribute 8.93% of annual covered salary. Contribution requirements are established by State statute. The Agency's contribution to IPERS for the years ended June 30, 2014, 2013 and 2012 was \$1,191,150, \$1,162,248 and \$1,087,473, respectively, equal to the required contributions for each year.

Note 7. Other Postemployment Benefits (OPEB)

Plan description: The Agency operates a single-employer retiree benefit plan that provides medical and prescription drug benefits for employees, retirees and their spouses. There are 221 active and 44 retired members in the plan. Participants must be age 55 or older at retirement.

The medical and prescription drug benefits are provided through a fully insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees, which results in an implicit rate subsidy and an OPEB liability.

Funding policy: The contribution requirements of plan members are established and may be amended by the Agency. The Agency currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB cost and net OPEB obligation: The Agency's annual OPEB cost is calculated based on the annual required contribution (ARC) of the Agency, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the Agency's annual OPEB cost for the year ended June 30, 2014, the amount actually contributed to the plan and changes in the Agency's net OPEB obligation:

Annual required contribution	\$ 171,129
Interest on net OPEB obligation	12,186
Other adjustments to ARC	(45,407)
Annual OPEB cost	<u>137,908</u>
Contributions made	(25,236)
Increase in net OPEB obligation	<u>112,672</u>
Net OPEB obligation beginning of year	<u>486,731</u>
Net OPEB obligation end of year	<u>\$ 599,403</u>

NOTES TO FINANCIAL STATEMENTS

Note 7. Other Postemployment Benefits (OPEB) (Continued)

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2012. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2014.

For the year ended June 30, 2014, the Agency contributed \$25,236 to the plan. Plan members eligible for benefits contributed \$150,487 to the plan.

The Agency's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2014 are summarized as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost	Net OPEB Obligation
June 30, 2014	137,908	23.01%	\$ 599,403
June 30, 2013	164,301	33.76	486,731
June 30, 2012	124,362	35.38	351,459
June 30, 2011	221,915	84.98	261,127
June 30, 2010	11,028	12.19	90,497

Funded status and funding progress: As of July 1, 2012, the most recent actuarial valuation date for the period July 1, 2013 through June 30, 2014, the actuarial accrued liability was \$749 thousand, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$749 thousand. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$13,222,000, and the ratio of the UAAL to covered payroll was 5.67%. As of June 30, 2014, there were no trust fund assets.

Actuarial methods and assumptions: Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumption about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress for the Retiree Health Plan, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2012 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions include a 2.50% discount rate based on the Agency's funding policy. The projected annual medical trend rate is 6%.

NOTES TO FINANCIAL STATEMENTS

Note 7. Other Postemployment Benefits (OPEB) (Continued)

Actuarial methods and assumptions (continued): Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial report as of June 30, 2011 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2011.

Note 8. Risk Management

The Agency is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Agency assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 9. Prospective Accounting Change

The Governmental Accounting Standards Board has issued Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27. This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, the Statement of Net Position is expected to include a significant liability for the government's proportionate share of the employee pension plan.

KEYSTONE AREA EDUCATION AGENCY 1

REQUIRED SUPPLEMENTARY INFORMATION

KEYSTONE AREA EDUCATION AGENCY 1

**SCHEDULE OF REVENUES, EXPENDITURES/EXPENSES
AND CHANGES IN BALANCES -- BUDGET AND ACTUAL
ALL GOVERNMENTAL FUNDS
Year Ended June 30, 2014**

	Total Governmental Fund Types Actual	Budget		Final to Actual Variance - Favorable (Unfavorable)
		Original	Final	
Revenues:				
Local sources	\$ 7,347,954	\$ 7,418,766	\$ 7,464,755	\$ (116,801)
State sources	7,035,463	7,949,947	7,047,525	(12,062)
Federal sources	7,868,963	8,442,229	7,980,347	(111,384)
Total revenues	22,252,380	23,810,942	22,492,627	(240,247)
Expenditures/Expenses:				
Current:				
Instruction	244,739	249,629	258,536	13,797
Student support services	10,621,094	11,200,538	10,741,932	120,838
Instructional staff support services	6,601,076	6,724,625	6,915,070	313,994
General administration	3,033,627	3,115,316	3,068,622	34,995
Business administration	1,478,787	1,508,922	1,592,198	113,411
Plant operations and maintenance	846,834	820,096	824,141	(22,693)
Central and other support services	285	1,000	500	215
Community service operations	50,108	56,513	58,724	8,616
Total expenditures/ expenses	22,876,550	23,676,639	23,459,723	583,173
Excess (deficiency) of revenues over (under) expenditures/ expenses	(624,170)	134,303	(967,096)	342,926
Balance, beginning of year	2,818,349	2,087,123	2,818,349	-
Balance, end of year	\$ 2,194,179	\$ 2,221,426	\$ 1,851,253	\$ 342,926

See accompanying Independent Auditor's Report.

KEYSTONE AREA EDUCATION AGENCY 1
June 30, 2014

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

The Agency's Board of Directors annually prepares a budget on a basis consistent with U. S. generally accepted accounting principles for all funds except Agency Funds. Although the budget document presents function expenditures/expenses by fund, the legal level of control is at the total expenditure/expense level, not by fund. After required public notice and hearing in accordance with the Code of Iowa, the Board submits its budget to the State Board of Education. The State Board reviews the proposed budget and either grants approval or returns it without approval with comments. Any unapproved budget must be resubmitted to the State Board for final approval. The budget may be amended during the year utilizing procedures prescribed by the State Board.

For the year ended June 30, 2014, the Agency's expenditures/expenses did not exceed the approved budget.

KEYSTONE AREA EDUCATION AGENCY 1**Schedule of Funding Progress for the Retiree Health Plan (In Thousands)****Required Supplementary Information**

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
2009	7/1/2008	\$ -	\$ 1,023	\$ 1,023	0.00%	\$ 13,459	7.60%
2010	7/1/2008	-	1,023	1,023	0.00	14,047	7.28
2011	7/1/2010	-	1,039	1,039	0.00	13,533	7.68
2012	7/1/2010	-	1,039	1,039	0.00	13,635	7.62
2013	7/1/2012	-	749	749	0.00	13,198	5.68
2014	7/1/2012	-	749	749	0.00	13,222	5.67

See Note 7 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and net OPEB obligation, funded status and funding progress.

See accompanying independent auditor's report.

SUPPLEMENTARY INFORMATION

KEYSTONE AREA EDUCATION AGENCY 1**Schedule 1****BALANCE SHEET****NONMAJOR GOVERNMENTAL FUND****Year Ended June 30, 2014**

	<u>Special Revenue Juvenile Home</u>
Assets	
Current Assets:	
Cash	\$ 34,212
Intergovernmental receivables	-
Total assets	<u>\$ 34,212</u>
Liabilities and Fund Balances	
Liabilities:	
Accounts payable	\$ 1,402
Intergovernmental payables	3,474
Salaries and benefits payable	29,336
Total liabilities	<u>34,212</u>
Fund balances:	
Assigned/restricted for specific special purposes	-
Total liabilities and fund balances	<u>\$ 34,212</u>

See Accompanying Independent Auditor's Report.

KEYSTONE AREA EDUCATION AGENCY 1**Schedule 2****SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUND
Year Ended June 30, 2014**

	Special Revenue Juvenile Home
Revenues:	
State sources	\$ 281,123
Total revenues	281,123
Expenditures:	
Current:	
Instruction	242,922
Instructional staff support services	1,887
General administration	26,684
Business administration	54
Plant operations and maintenance	9,576
Debt service	-
Total expenditures	281,123
Excess (Deficiency) of revenues over (under) expenditures	-
Other financing sources:	
Transfers in	-
Excess (Deficiencies) of revenues and other financing sources over (under) expenditures	-
Fund balances beginning of year	-
Fund balances end of year	\$ -

See accompanying Independent Auditor's Report.

KEYSTONE AREA EDUCATION AGENCY 1**SCHEDULE OF REVENUES BY SOURCE
AND EXPENDITURES BY FUNCTION
ALL GOVERNMENTAL FUND TYPES
Year Ended June 30, 2014**

	2014	2013	2012	2011
Revenues:				
Local	\$ 7,347,954	\$ 7,469,486	\$ 7,680,170	\$ 7,505,889
State	7,035,463	6,601,924	6,471,382	7,844,686
Federal	7,868,963	8,389,797	9,473,925	9,186,771
Total	\$ 22,252,380	\$ 22,461,207	\$ 23,625,477	\$ 24,537,346
Expenditures:				
Instruction	\$ 244,739	\$ 234,954	\$ 280,407	\$ 254,436
Student support services	10,621,094	11,121,209	10,532,497	10,264,301
Instructional staff support services	6,601,076	6,453,207	6,613,163	6,704,588
General administration	3,033,627	3,139,356	3,143,055	3,007,220
Business administration	1,478,787	1,400,980	1,280,809	1,447,176
Plant operations and maintenance	846,834	815,945	659,630	663,046
Central and other support services	285	117	232	847
Community service operations	50,108	45,898	45,534	41,880
Facilities acquisition and construction	-	-	-	-
Debt service	-	2,233,813	460,672	460,733
Total expenditures	\$ 22,876,550	\$ 25,445,479	\$ 23,015,999	\$ 22,844,227

See accompanying Independent Auditor's Report.

Modified Accrual Basis**Years Ended June 30,**

2010	2009	2008	2007	2006	2005
\$ 7,418,063	\$ 7,176,257	\$ 7,027,608	\$ 6,699,556	\$ 6,552,694	\$ 6,402,127
6,889,970	7,639,313	6,864,814	5,721,745	5,175,879	4,923,883
14,253,568	9,334,486	8,366,891	8,719,971	8,870,515	8,502,948
\$ 28,561,601	\$ 24,150,056	\$ 22,259,313	\$ 21,141,272	\$ 20,599,088	\$ 19,828,958
\$ 166,251	\$ 254,911	\$ 638,042	\$ 377,243	\$ 294,653	\$ 121,543
14,506,428	11,588,519	9,783,157	9,337,230	9,438,835	9,322,347
7,067,820	6,575,140	5,934,985	5,720,022	5,699,278	5,402,081
2,999,018	2,969,745	2,985,714	2,872,640	3,005,570	2,979,545
1,574,380	1,286,058	1,383,903	1,294,592	1,192,424	758,353
745,214	757,033	726,456	725,009	671,528	630,566
586	199	625	576	2,421	192,599
94,240	58,770	83,388	87,292	85,828	-
-	-	-	-	127,727	-
444,654	432,385	413,950	462,950	453,513	361,701
\$ 27,598,591	\$ 23,922,760	\$ 21,950,220	\$ 20,877,554	\$ 20,971,777	\$ 19,768,735

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2014

Project Title	CFDA Number	Pass-through Grantor's Number	Expenditures
Indirect:			
U. S. Department of Education:			
Passed-through Iowa Department of Education:			
Special Education Cluster (IDEA):			
Special Education - Grants to States:	84.027		
IDEA Part B		131301	\$ 5,303,351
IDEA Part B - LEA Flow-Through		4KB2-01	1,534,616
Parent-Educator Connection		3K74-01	97,785
Iowa Core Significant Disabilities Team		002014	3,762
Iowa Core Significant Disabilities Team		050814	4,598
Transition Summer Institute		058014	675
			<u>6,944,787</u>
Special Education - Preschool Grants:	84.173		
IDEA Part B Section 619		13619-01	232,987
Teach Town Expansion Project		003513	2,437
Teach Town Expansion Project		016214	86,116
QPPS Verification Site Visits		022814	6,500
			<u>328,040</u>
			<u>7,272,827</u>
Special Education - Grants for Infants and Families:			
IDEA - Part C	84.181	C1314-01	<u>213,368</u>
Special Education - Improvement Grants for Children:			
Special Ed. Director Professional Development	84.323	007514	<u>332</u>
Carl D. Perkins Career and Technical Education:			
Vocational Education - Basic Grants to States	84.048A	G40101	<u>185,643</u>
Department of Education Grants:			
Title III - English Language Acquisition	84.365	14ELA-01	64,344
Iowa Safe & Supportive Schools, Learning Supports	84.184	004214	<u>97,892</u>
			<u>162,236</u>

(Continued on next page)

KEYSTONE AREA EDUCATION AGENCY 1

Schedule 4
(Continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2014

Project Title	CFDA Number	Pass-through Grantor's Number	Expenditures
Indirect (Continued):			
U. S. Department of Education (Continued):			
Passed-through an Iowa LEA:			
Title II, Part A - 2013-2014	84.367	Project 4643	\$ 14,336
Passed-through a University/College:			
Investing in Innovation (i3)	84.396A	Project 4759	12,875
U. S. Department of Human Services, Medicaid:			
Medical Assistance Program:			
Medicaid Direct Service Reimbursement:	93.778		
Medicaid Direct Services, Part B			5,490
Medicaid Direct Services, Part C			1,856
			7,346
			\$ 7,868,963

Basis of Presentation: The Schedule of Expenditures of Federal Awards includes the federal grant activity of Keystone Area Education Agency 1 and is presented on the modified accrual basis. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying Independent Auditor's Report.

KEYSTONE AREA EDUCATION AGENCY 1

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



SCHNURR & COMPANY, LLP
Certified Public Accountants and Consultants

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Keystone Area Education Agency 1
Elkader, Iowa

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Keystone Area Education Agency 1 as of and for the year ended June 30, 2014, and the related Notes to Financial Statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated November 7, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Keystone Area Education Agency 1's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Keystone Area Education Agency 1's internal control. Accordingly, we do not express an opinion on the effectiveness of Keystone Area Education Agency 1's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Agency's financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Keystone Area Education Agency 1's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about Keystone Area Education Agency 1's operations for the year ended June 30, 2014 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of Keystone Area Education Agency 1. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Agency's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Keystone Area Education Agency 1 during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Schnarr & Company, LLP

Fort Dodge, Iowa
November 7, 2014

KEYSTONE AREA EDUCATION AGENCY 1

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133**



SCHNURR & COMPANY, LLP
Certified Public Accountants and Consultants

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133**

Board of Directors of
Keystone Area Education Agency 1
Elkader, Iowa

Report on Compliance for Each Major Federal Program

We have audited Keystone Area Education Agency 1's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014. Keystone Area Education Agency 1's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Keystone Area Education Agency 1's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Keystone Area Education Agency 1's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Keystone Area Education Agency 1's compliance.

Opinion on Each Major Federal Program

In our opinion, Keystone Area Education Agency 1 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

The management of Keystone Area Education Agency 1 is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Keystone Area Education Agency 1's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Keystone Area Education Agency 1's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Scharr & Company, LLP

Fort Dodge, Iowa
November 7, 2014

KEYSTONE AREA EDUCATION AGENCY 1

Schedule of Findings and Questioned Costs Year Ended June 30, 2014

Part I: Summary of the Independent Auditor's Results

- (a) Unmodified opinions were issued on the financial statements.
- (b) No significant deficiencies in internal control over financial reporting were disclosed.
- (c) The audit did not disclose any noncompliance that is material to the financial statements.
- (d) No significant deficiencies in internal control over major programs were disclosed.
- (e) An unmodified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose any audit findings that are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major programs were:
 - Special Education Cluster (IDEA):
 - CFDA Number 84.027 – Special Education – Grants to States
 - CFDA Number 84.173 – Special Education – Preschool Grants
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Keystone Area Education Agency 1 qualified as a low-risk auditee.

Part II: Findings Related to the Financial Statements:

Instances of Non-Compliance:

No matters were reported.

Internal Control Deficiencies:

No matters were noted.

Part III: Findings and Questioned Costs For Federal Awards:

Instances of Non-Compliance:

No matters were reported.

Internal Control Deficiencies:

No matters were noted.

Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2014

Part IV: Other Findings Related to Required Statutory Reporting:

- IV-A-14 Certified Budget: Expenditures during the year ended June 30, 2014 did not exceed the amounts budgeted.
- IV-B-14 Questionable Expenditures: No expenditures that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- IV-C-14 Travel Expense: No expenditures of Agency money for travel expenses of spouses of Agency officials or employees were noted.
- IV-D-14 Business Transactions: No business transactions between the Agency and Agency officials or employees were noted.
- IV-E-14 Bond Coverage: Surety bond coverage of Agency officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- IV-F-14 Board Minutes: No transactions requiring Board approval were noted which had not been approved.
- IV-G-14 Deposits and Investments: No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Agency's investment policy were noted.
- IV-H-14 Certified Annual Report: The Certified Annual Report (CAR) was certified timely to the Iowa Department of Education.
- IV-I-14 Categorical Funding: No instances were noted of categorical funding used to supplant rather than supplement other funds.

